INTERNAL REVENUE SERVICE

IRS News Release

Media Relations Office | Washington, D.C. | Media Contact: 202.622.4000

www.IRS.gov/newsroom | Public Contact: 800.829.1040

2008 Inflation Adjustments Widen Tax Brackets,
Raise IRA/401(k) Limits and Expand Tax Benefits

IR-2007-172, Oct. 18, 2007

WASHINGTON — For 2008, personal exemptions and standard deductions will rise, tax brackets will widen and workers will be able to save more for retirement, thanks to inflation adjustments announced today by the Internal Revenue Service.

By law, the dollar amounts for a variety of tax provisions must be revised each year to keep pace with inflation. As a result, more than three dozen tax benefits, affecting virtually every taxpayer, are being adjusted for 2008. Key changes affecting 2008 returns, filed by most taxpayers in early 2009, include the following:

- The value of each personal and dependency exemption, available to most taxpayers, is $3,500, up $100 from 2007.

- The new standard deduction is $10,900 for married couples filing a joint return (up $200), $5,450 for singles and married individuals filing separately (up $100) and $8,000 for heads of household (up $150). Nearly two out of three taxpayers take the standard deduction, rather than itemizing deductions, such as mortgage interest, charitable contributions and state and local taxes.

- Tax-bracket thresholds increase for each filing status. For a married couple filing a joint return, for example, the taxable-income threshold separating the 15-percent bracket from the 25-percent bracket is $65,100, up from $63,700 in 2007.

- The maximum earned income tax credit for low and moderate income workers and working families with two or more children is $4,824, up from $4,716. The income limit for the credit for joint return filers with two or more children is $41,646, up from $39,783.

- The maximum Hope credit, available for the first two years of post-secondary education, is $1,800, up from $1,650 in 2007.

- The income limit for the savers credit is $53,000 for joint filers (up $1,000), $39,750 for heads of household (up $750) and $26,500 for singles and married persons filing separately (up$500). Low-and moderate income workers who contribute to a retirement plan, such as an IRA or 401(k), may qualify for the credit, which is available in addition to any other tax savings that apply.

- The contribution amount allowed for Roth IRAs begins to phase out for joint filers with incomes exceeding $159,000 (up from $156,000) and $101,000 (up from $99,000) for singles and heads of household.

- For contributions to a traditional IRA, the deduction phase-out range for an individual covered by a retirement plan at work begins at income of $85,000 for joint filers (up from $83,000) and $53,000 for a single person or head of household (up from $52,000).

- Participants in most employer-sponsored 401(k) plans and 403(b) plans for employees of public schools and certain tax-exempt organizations can contribute up to $15,500, unchanged from 2007. Individuals, age 50 or over, can make an additional contribution of up to $5,000, also unchanged from 2007.

- Individuals participating in SIMPLE retirement plans can contribute $10,500, unchanged from 2007. Those, age 50 or over, can make an additional contribution of up to $2,500, also unchanged from 2007.

- The annual contribution limit for most defined contribution plans rises to $46,000, up from $45,000 in 2007.

More information about the pension and retirement plan-related changes can be found in IR-2007-171. Other inflation adjustments are described in Revenue Procedure 2007-66.

— 30 —